The State of the State's Labor Markets

An Executive Briefing:

The State of the State's Labor Markets — June 1999

Labor Market Information Division, Employment Development Department

Employment Development Department
State of California

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ACKNOWLEDGMENTS

This report was prepared by Douglas Rose and Janet Austin. Research support was provided by Mary Mahoney and Andrew Waskiewicz. This report benefited from the reviews of Loren Suter at the California Employment Development Department, Ted Gibson at the California Department of Finance, Werner Schink at the California Department of Social Services, Robert Hotchkiss at the California Health and Human Services Agency, Tamara Anderson, Senior Research Manager and Richard Ficenec, Deputy Chief of EDD's Labor Market Information Division (LMID). We appreciate the helpful comments we have received. Any errors or omissions are our own.

For questions concerning this report, contact Douglas Rose at (916) 262-2325. For additional copies of the report, contact the Labor Market Information Division (LMID) Publication Center (916) 262-2162. Updated employment statistics are available monthly on the LMID home page. (http://www.calmis.ca.gov)

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HIGHLIGHTS

The State of the State's Labor Markets is intended to brief the Governor and other officials involved in statewide economic assessment and policymaking on the status of California's labor markets. The report provides an overview of the state's economic condition and the key factors affecting California labor markets. The highlights of the overview are:

- California is in the sixth year of economic expansion, making it the third longest expansion in California's post-WWII experience. The state has added 1.3 million jobs above the pre-recession peak employment level.

Strength in real estate, construction and more rapid population growth, among other factors, will contribute to continued expansion.

- Job growth has not slowed during the past year even though the pent-up demand that followed the 1990-93 recession has been satisfied and the effects of the national slowdown and Asian economic contagion have manifested. California's rate of job growth continues to exceed that of the nation as a whole.

- The annual average unemployment rate has dropped 3.5 percentage points, from a high of 9.4 percent in 1993 to 5.9 percent in 1998, averaging a steady decline of 0.7 percentage points per year over the five year period. The greatest year-to-year decline occurred in 1997, when the rate fell 0.9 percentage point. The 1998 annual average rate is down 0.4 percentage point from the previous year.

- The California economic expansion is likely to continue for at least the next three to five years, albeit at a slower pace than the last four years. California's economy will show the effects of slowing aggregate demand in the national and international markets. However, strength in real

estate and construction and more rapid population growth, among other factors, will contribute to continued expansion through 2003.

- The Asian financial crisis has slowed job growth primarily in high technology industries which are relatively more dependent on exports to the region. As a result of the crisis, California job growth may be 0.5 percentage point (or about 70,000 jobs) lower in 1999 than it otherwise might have been.

- There will be little stimulus to the California economy from defense spending during the next five years, but there will also likely be no large-scale negative impact. There may be a small boost to the state if savings from base closures are used to fund a weapons modernization program that calls on California's aerospace and defense companies.

Two-thirds of California job growth over the past five years has been in the services and retail trade sectors.

- Population growth will accelerate to average about 1.8 percent per year, higher than during the recession but still lower than the state's long-term average rate of 2.0 percent.

- Notwithstanding a major economic disruption as welfare reform is implemented, as many as 348,000 adults may leave welfare rolls. The ability of welfare agencies to enforce aid time-limits and work requirements will depend on there being enough job opportunities in occupations that match the experience and skill level of welfare recipients, and the job readiness of the welfare population.

- Worker shortages have been reported in high technology manufacturing and service businesses, construction, and agriculture. Continued shortages would have the potential to constrain employment growth in these industries. Recent increases in the number of H-1B visas available will help California's high technology industry.

- Goods-producing industries are becoming a smaller part of the state economy, while industries providing services to consumers or to other businesses are increasing in importance. Two-thirds of California job growth over the past five years has been in the services and retail trade sectors. California now has more jobs in business services than in electronics and aerospace combined, and more jobs in retail trade than in the entire manufacturing sector.

The momentum of the expansion has shifted to Southern California, primarily to the counties surrounding Los Angeles County.

- While most sub state areas have recorded job gains and lower unemployment over the past five years, the pace of the expansion varies. Disparities in regional economic growth are related to the varying fortunes of the industries on which the local economy is based, differing rates of population growth, cost factors, and other factors, such as environmental regulations and land availability.

- The latest employment data for California regions show that momentum of the expansion has shifted to Southern California, primarily to the counties surrounding Los Angeles County, which somewhat lags its neighbors in job growth. In the San Francisco Bay Area, continued strength in most of the region is being offset by sluggish growth in Santa Clara County, a victim of weaker Asian export markets, an overheated housing market, and scarcity of office and industrial space.

PURPOSE AND SCOPE

The State of the State's Labor Markets is intended to brief the Governor and other officials involved in statewide economic assessment and policymaking on the status of California's labor markets. The report provides an overview of the state's economic condition and the key factors affecting California labor markets. The Employment Development Department's Labor Market Information Division (LMID) provides this information as a result of its unique role in generating and analyzing official labor force and payroll employment statistics for California. LMID staff are available to provide additional information or answer questions from state policymakers, researchers, the economic development community and other interested parties.

This report was prepared using annual average data available as of mid-March 1999, covering the study years from January 1993 to January 1999. This report identifies recent five year trends and prospectively one to five years out (1999 - 2003). The first section of the report reviews current conditions as indicated by monthly labor market statistics and presents the short-term outlook according to departmental economists and other leading California forecasters. The second section of the report provides a summary of the issues that will most significantly affect state labor markets in the coming years, such as the Asian financial crisis and labor supply problems. The third and fourth sections of the report present in greater detail, industry and sub state employment trends.

The fifth section of the report provides some examples of the use of economic data for policy makers in program planning.

CALIFORNIA'S RECENT TRENDS

As of January 1999, there were 15.5 million people employed in California. Nonfarm employers reported 13.8 million payroll jobs. In addition there are 399,000 jobs in the farm sector, and 1.5 million persons are self-employed in unincorporated businesses [1]. California accounts for nearly 12 percent of the nation's labor force and nearly 11 percent of the nation's nonfarm jobs. (Data are seasonally adjusted.)

This section presents the most recent monthly labor market statistics, reviews aggregate trends over the past five years, and summarizes the short and long-term outlook for the California economy.

California has recorded thirty-four consecutive months of monthly job gains.

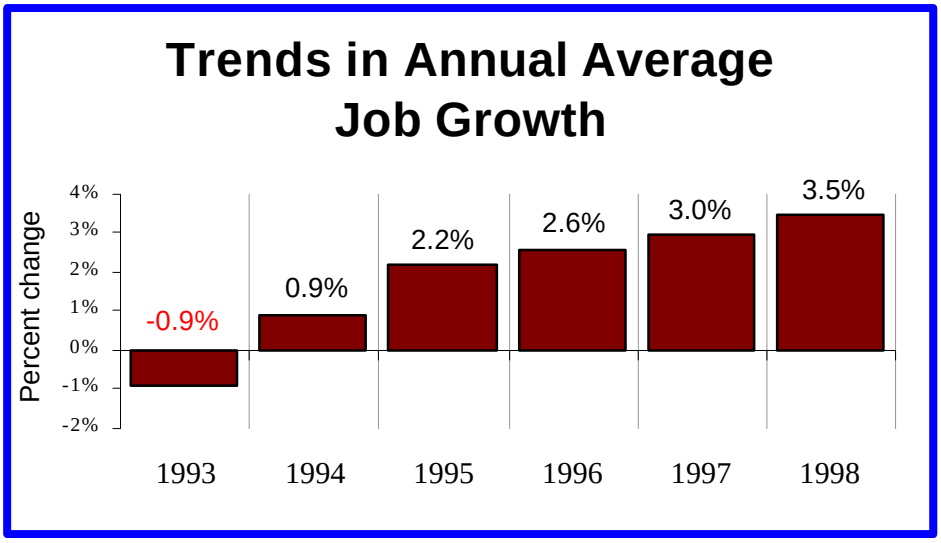
California's Economy Still Expanding

California is entering the sixth year of economic expansion that dates from the spring of 1993. Although the national recession officially spanned July 1990 to March 1991, California continued to lose jobs until May 1993. The state had regained all of the half a million jobs lost during the recession by December 1995, and has since added 1.3 million jobs above the pre-recession peak employment level. Although the rate of job growth has been slower in the current expansion than during most previous expansions, historically, the current growth cycle is already the third longest in California's post-WWII experience.

Job growth has accelerated each year since 1993, peaking at 3.5 percent in 1998, a 0.5 percentage point increase during the past year. The 1998 growth is the greatest annual growth in 10 years. In 1998, the California

[1] The parts do not add up to the total because of differences in definitions and collection techniques. Appendix A provides a glossary of terms and addresses the most important differences among labor market statistics.

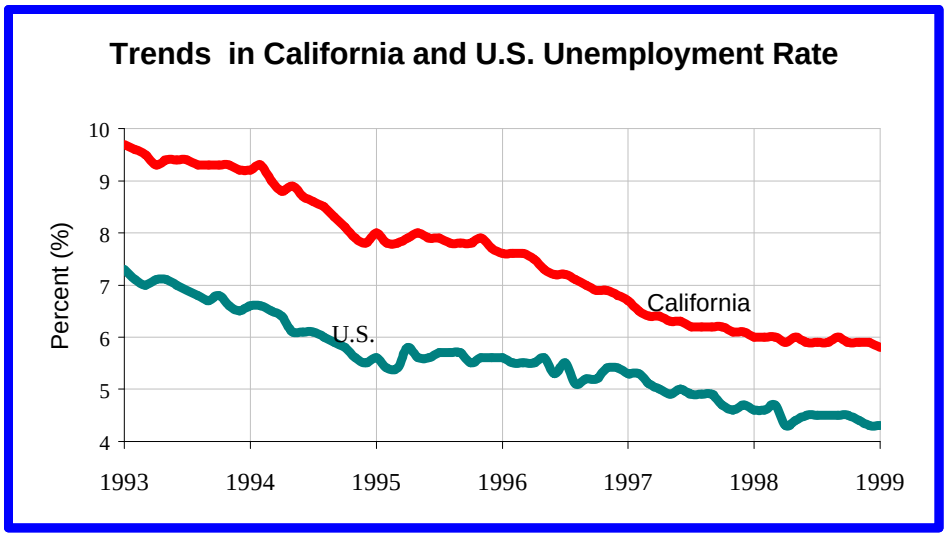
economy created 454,300 jobs, or a 3.5 percent increase, with stronger growth in the second half of the year, exceeding the U.S. growth rate (2.6 percent). The year 1998 was the third year in which California nonfarm job growth exceeded that of the nation as a whole.



California accounts for 11.6 percent of the nation's labor force and 10.6 percent of the nation's nonfarm jobs.

The job growth recovery has been accompanied by a decline in the California unemployment rate. The annual average unemployment rate has dropped 3.5 percentage points, from a high of 9.4 percent in 1993 to 5.9 percent in 1998, averaging a steady decline of 0.7 percentage points per year over the five year period. The greatest year-to-year decline occurred in 1997, when the rate fell 0.9 percentage point. The 1998 annual average rate is down 0.4 percentage point from the previous year.

The annual average state rate remains above the comparable U.S. unemployment rate (4.3 percent), but the gap has narrowed considerably over the past five years. In 1993, California's rate stood 2.5 percentage points higher than the U.S. rate. In 1998, the gap narrowed to 1.4 percentage points. It should be noted that California has historically recorded a higher unemployment rate than the nation, due largely to more rapid population growth.



A Slowdown in 1999, But Continued Expansion

Construction and computer software and services could be the difference between a so-so year and a decidedly good year in 1999.

According to the three leading forecasters of the California economy – the UCLA Anderson Forecast, the California Department of Finance, and the Legislative Analyst's Office – the California economic expansion will continue for at least the next three to five years. Most forecasters believe that strength in real estate, construction and more rapid population growth, among other factors, will contribute to continued expansion through 2003.

The pace of U.S. economic expansion will cool in 1999, due primarily to continuing declines in exports and a slowing in consumer spending and business investment as a result of stock market volatility. California's economy will show the effects of slowing aggregate demand in the national and international markets by a slightly slower, but not negative, rate of job growth. In particular, analysts say two robust, well-paying industries, construction and computer software and services, could be "the difference between a low growth year and a decidedly good year" in 1999.[2]

Specifically, California industry job growth is expected to slow in 1999. The extent of the slowing is seen as more moderate in recent forecasts compared to forecasts prepared in late 1998 before the benchmark revisions to historical labor statistics. In their March 1999 forecast, UCLA foresees

nonfarm wage and salary growth dropping to 3.4 percent in 1999. In late 1998, both the Department of Finance and Legislative Analyst's Office predicted job growth in 1999 would drop significantly, to between 2.0 and 2.5 percent. This is near California's long-term average annual growth rate (1940-1998). Barring any external shocks or national macroeconomic changes, growth is expected to decelerate further in 2000, to between 1.9 and 2.5 percent. Forecasters expect growth in 2001 through 2003 will slow again to an average annual level of around 2.3 percent. Under these conditions, California could expect to generate approximately 350,000 jobs per year, or a total of 1.7 million jobs, from 1999 through 2003.[3]

Nonfarm payroll employment in California is expected to reach 15.9 million by the year 2006.

Forecasts of the California unemployment rate depend on expectations of employment, population growth, and changes in labor force participation among the working-aged population. Forecasts for the 1999 unemployment rate range from 5.4 to 6.0 percent. The unemployment rate has been essentially flat over the past year at 5.9 percent to 6.0 percent. In 2000 through 2003, the unemployment rate will flatten or decline slightly when employment growth accelerates out of an expected "economic pause." It is unlikely, however, that the unemployment rate will fall to the pre-recession low of 5.0 percent.

On a long-term basis, LMID's industrial and occupational projections show that nonfarm payroll employment in California is expected to reach 15.9 million by the year 2006. That is an increase of 2.2 million jobs, or 16 percent, over the 1996 level. Nearly half of the new jobs will be in the services industry with over 40 percent created in business services. The fastest growing occupations will be computer and health-related. In fact, the four fastest growing occupations are expected to double in size over the next 10 years. They are: computer engineers, computer support specialists, systems analysts, and data base administrators. The next three fastest

[2] Los Angeles Times, "Experts Say Hard Hats, Software to Boost State" December 30,1998
[3] These are growth projections and do not include openings due to separations. Separations are job openings created when employees leave the labor force or change occupations.

growing occupations are home health care workers, physical therapy assistants and aides, and personal and home care aides.

The factors that could have the greatest effect on future labor market conditions are discussed in greater detail in the second section of this report (Factors Influencing the Outlook).

Job Flows Are Large, Regardless of The Pace of Growth

In California, economic growth creates a net 300,000 new jobs per year, and nearly 10 million hiring transactions occur in a year.

This report focuses on economic trends as measured by net change in labor market statistics. However, labor markets are much more active than net change analysis alone would indicate. Unemployment and payroll jobs data are counts taken at a point in time; they do not capture the gross flow of individuals in and out of the labor force nor the varying fortunes and employment levels of individual firms. This ebb and flow of jobs and workers is part of our economy's continuous "creative destruction."

As a result, there is no inconsistency between falling unemployment and long lines of applicants or stiff competition for job openings. On the contrary, a booming economy often makes for a job-seekers market, and individuals may start looking for a better job without necessarily leaving their old job.

A U.S. Bureau of the Census study of job creation and destruction estimates that between 1973 and 1988, an average of 10.3 percent of jobs were destroyed each year while 9.1 percent additional new jobs were created. The results of this study are true in today’s dynamic economy. In California, economic growth creates a net 300,000 new jobs per year, and nearly 10 million hiring transactions occur in a year.

Separations would account for approximately as many openings as created by industry growth.

The "New Economy"

Some economic theorists believe that there are a number of changes in the structure of the economy and the workplace that are of such magnitude and significance that a New Economy is emerging. The economy that will result from these changes has been termed alternately: the "Information Economy," the "Knowledge-value Economy," the "Digital Economy," or the "Network Economy."

By whatever name, the New Economy has typically been characterized as an emerging economic regime based on a global marketplace, the effects of corporate restructuring, the proliferation of smaller, commercially adept firms, and changes in the way business is conducted. Such changes include the use of tools such as just-in-time inventory, data warehousing, and rapid application development. The New Economy also suggests changes in working conditions such as:

- Alternate work arrangements
- Employment instability
- A greater emphasis on high technology skills
- The preeminence of services work.

BLS estimates that in February 1997 nearly 10 percent of U.S. wage and salary workers had alternate work arrangements.

Such changes would have significant implications for labor markets, the most significant of which is that the New Economy would demand more of workers. They must be better educated and more flexible. An examination of the evidence, however, indicates that while these trends or innovations may exist with some workers in some industries, they have not brought about the economy-wide "tectonic upheaval" that New Economy adherents have expected.

Alternate work arrangements. The U.S. Bureau of Labor Statistics (BLS) estimates that in February 1997 nearly 10 percent of U.S. wage and

salary workers had alternate work arrangements, specifically working as independent contractors, on-call workers, temporary help agency workers, or workers provided by a contract firm. This proportion is little different from estimates of two years earlier. While this is a significant percentage, it confirms that the bulk of the wage and salary employment (90 percent) still conforms to traditional work arrangements.

Other measures of alternative work also indicate that it is limited to a minority of workers. Self-employment accounts for about 10 percent of civilian employment, and the incidence of self-employment, which appeared to accelerate during the recession, has since leveled out as people find it easier to find wage and salary jobs. Similarly, part-time employment is only slightly more prevalent today than 10 years ago. Currently, about 20 percent of California workers work less than 35 hours a week. Multiple job holding is also a small part of the workplace. Nationally, only about 6 percent of workers have more than one job.

Another BLS study indicates that only 4.4 percent of all jobs in February 1997 were contingent.

Job Tenure. The median number of years that wage and salary workers had been with their current employer (referred to as employee tenure) was 3.6 years in February 1998, up slightly from a median tenure of 3.5 years in 1983. Another measure of tenure, the percent of employed wage and salary workers 25 years old and over who had worked for their current employer for 10 years or more, has fallen from 31.9 percent in 1983 to 30.7 percent.

Another BLS study indicates that only 4.4 percent of all jobs in February 1997 were contingent (jobs expected to last less than another year) and that proportion had changed little from the study of contingent work two years earlier.

None of these data support the view that the "social compact" for continued employment between employee and employer has changed dramatically.

Jobs requiring high technology skills. Technological innovations have increased the skill and education requirements for some jobs. For example, typists now must use personal computers, and plant mechanics who used to carry wrenches are now more likely to carry electronic diagnostic equipment. But technology has also simplified some jobs so that the skill requirements are lessened. For example, cashiers no longer have to enter prices into the cash register they are read by an UPC scanner or calculate sales tax or change. Another component of the New Economy, a focus on customer service, requires workers to have social skills, empathy, and basic communications skills, but not necessarily more formal education.

Even though skill requirements for some jobs have risen, the majority of new jobs are in low skill occupations. Among the occupations adding the greatest number of jobs between 1996-2006 are cashiers, retail salespersons, guards, and receptionists.

An account clerk once located in manufacturing is now in business services.

The discussion of the workforce-related changes that characterize the New Economy suggests that these changes have not affected the bulk of workers or their jobs. Social and demographic changes, such as increased participation of women workers, ethnic diversity, and aging population, have had and will continue to have a much more profound effect on labor markets.

Shift to a service economy. There has been an increase in the number of jobs in service-producing industries compared to goods-producing industries. Some of this shift represents a change in the organization of work among firms. For example, accounting and billing functions in a manufacturing firm today are often contracted out to specialty firms rather than being handled internally. Such "outsourcing" does not change the nature of the jobs involved in accounting and billing functions; what is changed is the industry in which the jobs are located. In this example, an account clerk once located in manufacturing is now in business services.

Some of the shift to services is also simply a consequence of the industry classification system currently in use. Many rapidly growing and emerging industries, such as multimedia and entertainment, biotechnology (with R&D and laboratory testing) and computer software programming, are classified as service-producing under the Standard Industrial Classification (SIC) system. Trends in industrial composition may appear quite different under the North American Industry Classification System (NAICS), which is planned to be fully implemented in labor market statistics beginning January 2003.

FACTORS INFLUENCING THE OUTLOOK

This section will discuss issues that have and will continue to affect California's economy. We have identified five areas that will have significant influence, both positive and negative, on California labor markets. The five areas are: the Asian financial crisis, aerospace and defense spending, population growth, welfare reform, and labor supply problems.

Asian Financial Crisis

Asia's weakness has slowed job growth primarily in high technology jobs.

Exports have been a key vehicle of growth for California.

California is the seventh largest world economy, larger than even Canada, Brazil, and China.[4] Accordingly, California goods and services are sold worldwide, and production for export makes an important contribution to California's economy. In 1997, California produced $109.5 billion in manufactured goods for export, more than any other state. Exports of services such as movies, construction management, and computer programming are not included in these data, but also contribute significantly to the state's economy.

However, trading goods in the world market opens up the California economy to the sometimes deleterious trends in the economies of other nations, as has been the case with the Asian financial crisis. The crisis began in November 1997, when a crash in the Indonesian *rupiah* and Korean *won* precipitated a region-wide currency crisis and economic slowdown.

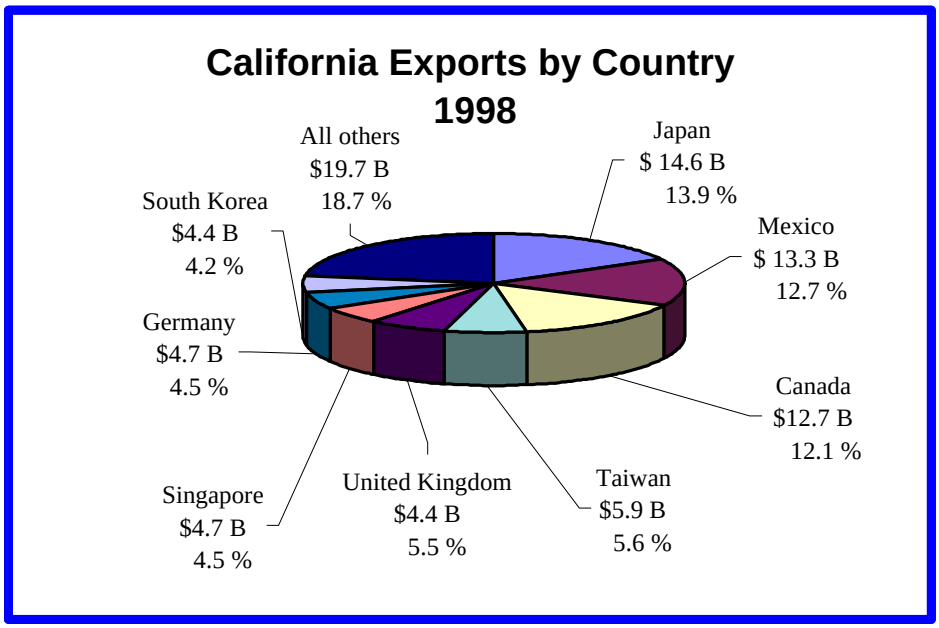
The ensuing significant weakening of Asian currencies versus the dollar has led to increased competition of imports from across the Pacific this year

[4] Estimates from the World Bank Atlas, 1998. Based on 1996 data.

as prices for Asian products denominated in U.S. dollars have fallen. Simultaneously, citizens in Asian countries have dramatically reduced their purchases of American goods due both to their domestic recessions and the relative rise in price of American goods when denominated in their devalued currencies.

Nationally, 30 percent of U.S. exports go to Asia, supporting millions of U.S. jobs. Forty percent of all U.S. agriculture exports go to Asia, more than any other region. In the past year, total U.S. exports to Asia have decreased by 11 percent.

California's exports to Asia declined more than 20 percent compared to the same period in 1997.



California is the nation's leading exporter to Asia, accounting for 27 percent of total U.S. exports to the region. California exported $49.8 billion of merchandise to Asia in 1997. These exports accounted for 48 percent of the state's total merchandise exports and 4.8 percent of the state's gross state product. Between 1993 and 1997, the state's exports to Asia increased by 55 percent.

Through the first three quarters of 1998, California's exports to Asia declined more than 20 percent compared to the same period in 1997. As a result, Asian markets now comprise only 39 percent of the total California exports, down from a peak of 48 percent in 1997. Most notably, exports to

South Korea decreased 41 percent over the same period. Exports to Japan, California's largest trading partner in 1997, decreased by 16 percent.

Several of the state's principal sectors are heavily dependent on exports to Asia, and these are the industries that have shown the greatest effect of the Asian crisis. For example, the electronic equipment sector was responsible for $15 billion, or 31 percent, of the state's exports to Asia in 1997. Exports in California's top two export sectors – electronics and electrical equipment and industrial machinery and computer equipment – have declined 3.4 and 6.3 percentage points, respectively, since the beginning of 1997. Agricultural products are becoming increasingly important, with beef the leading export followed by cotton, grapes, almonds, fish, and oranges. Asia is the leading importer of California's processed food products.

Asian markets now comprise only 39 percent of the total California exports.

Regarding the workforce, however, there is little direct evidence of specific effects of the Asian crisis in labor market data for the U.S. or California. A possible exception is that job growth in high technology industries slowed considerably in the second half of 1998. Although some of this decline is certainly attributable to the crisis, high technology sectors are also seeing declines due to an oversupply of computer chips.

Prospects

Employment growth will be slower in 1999.

According to the World Bank, growth in economic output globally was cut nearly in half, to 1.8 percent in 1998 from 3.2 percent in 1997, and is expected to revive only modestly to 1.9 percent in 1999. Tempered but strong growth is continuing in continental Europe. Recent developments in East Asia and Japan indicate that the region may shift from the deep recession of 1998 to stabilization in 1999, but the situation remains highly uncertain.

Even if the Asian markets stabilize, there are likely to be continued declines in the state's high technology sector as a result of the lags between currency fluctuations and export orders. Trade with Canada, Mexico, and Europe has offset many of the Asian export losses. However, exports to North America and Europe have recently been slowing. The recent currency devaluation in Brazil and the potential fallout in Latin America may further diminish trade with Central and South American partners and Mexico. Altogether, economists estimate that, at most, California job growth will be 0.5 percentage point (or about 70,000 jobs) slower in 1999 than it otherwise might have been as a result of the Asian financial crisis.

Most of the potential job losses will be in San Jose and the greater San Francisco Bay Area, where electronic and electrical component industries are concentrated. The aerospace industry is suffering some renewed weakness as a result of a slowdown in export orders, most recently from cuts announced by Boeing Corporation, which will have a slight effect in the Southern California aircraft industry.

California job growth will be 0.5 percentage point (or about 70,000 jobs) slower in 1999.

Aerospace and Federal Defense

California's job losses have not ended.

Few industries have changed more dramatically over the past decade than aerospace and defense. The late 1980s were unique times for both industries, as the Cold War came to an end and the world entered into global recession. The economic effects were unprecedented – a dramatic reduction in defense spending that coincided with a sharp downturn in commercial aircraft production.

Relying on aerospace and defense for more than 30 percent of its gross state product, California's economy spiraled into what would be its longest, deepest recession in 60 years. The downturn was particularly difficult for Southern California, where more than 55 percent (about 385,000) of aerospace jobs were eliminated.

While overall defense spending will be flat in coming years, spending priorities will focus on new weapons systems and technologies to replace the now-aging equipment purchased in the 1980s. The Department of Defense's Quadrennial Defense Review, the Joint Chiefs of Staff, and members of the Senate Armed Services Committee have all recommended that more military bases be closed in order to free up funds for weapons modernization.

Base Realignment and Closures (BRAC)

California has lost 50,000 high paying jobs due to base closures.

Fifty-three military bases have been closed or disestablished and 27 military bases have been realigned in California.

The end of the Cold War, combined with the growing urgency to reduce the Federal budget deficit, compelled the United States to reduce and realign its military forces. To reduce the number of military installations in the United States, and to ensure the impartiality of the decision-making process, Congress enacted the Defense Base Closure and Realignment Act of 1990 (Public Law 101-510, as amended).

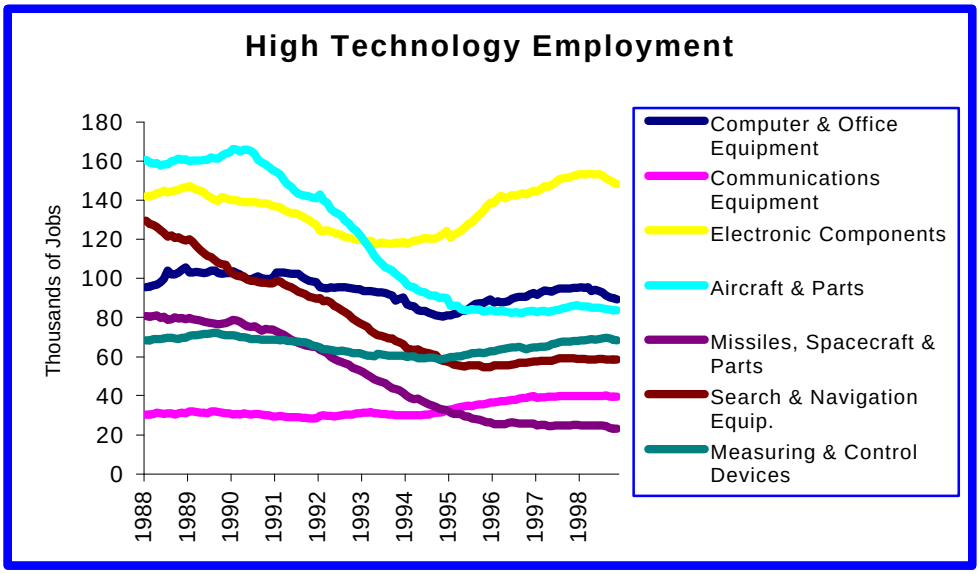
California has absorbed more closures and realignments than any other state over the past 10 years. Since 1988, 53 military bases have been closed or disestablished and 27 military bases have been realigned in California through BRAC. The last of four rounds of BRAC was in 1995. BRAC 95 is now beginning its fourth year of implementation of a six year closure process. Since October 1993, California has lost 39,000 high paying civilian jobs. Sacramento Air Logistics Center (McClellan AFB) is the only major base in California still in the process of closing and realigning the workload. The closure of the Sacramento Air Logistics Center will be the largest single loss to California in the BRAC process, where 10,300 high paying jobs will be lost over the next two years, bringing the total state loss to over 50,000 jobs since 1993.

Prospects

California is vulnerable to further cutbacks.

The Congressional imperative to maintain a balanced federal budget will continue to reduce federal defense budgets over the next decade. There will be little stimulus to the California economy from defense spending, as occurred during the 1960s with the Vietnam War or the 1980s with the

California garners 13% of the Defense Department's military and civilian payroll.



Reagan era defense buildup. It is unlikely that there will be a large-scale negative impact as happened during the first half of the 1990s, when spending declined for weapons, aircraft and ships simultaneously with the four rounds of base closures in 1989, 1991, 1993, and 1995.

The Quadrennial Review and the Future Year Defense Plan would reduce total active duty military by 36 percent in 2003 from 1987 levels. Following the completion of the four rounds of military base closings, however, the base infrastructure in the United States will have been reduced by only 21 percent, still short of the Quadrennial Review goals. Over the past two years, proposals have been put forth in Congress to add rounds of base closures in 1999 and 2001 in conformance with the proposed active duty reductions. The Secretary of Defense has proposed that these rounds be similar in scale to those in 1993 and 1995. However, neither the Congress nor the Executive Branch has any interest in initiating a 1999

round of closures and any future round would take place in 2001 at the earliest.

If base closings occur, they would likely take place in the West and the South. The largest exposure would likely be in California, which now garners 13 percent of the Defense Department's military and civilian payroll. Not only does California have the largest payroll (outside of the greater Washington, D.C. area), but several of its bases considered for closure in 1995 were passed over due to California's still-tenuous economic recovery at the time.

A possible silver lining to the cloud is that savings from base closings would help fund a weapons modernization program over the next 10 to 12 years. Spending on R&D and weapons procurement would offset some of the negative impact from further base closures in the South and the West. Much of the spending would be to modernize Air Force and Navy tactical fighter aircraft or to build a new generation of aircraft carriers. Any shifts in spending would likely be spread among defense contractors that are concentrated in locations such as Southern California, Georgia, and Texas.

Population growth is an engine of economic growth by creating new markets for goods and services.

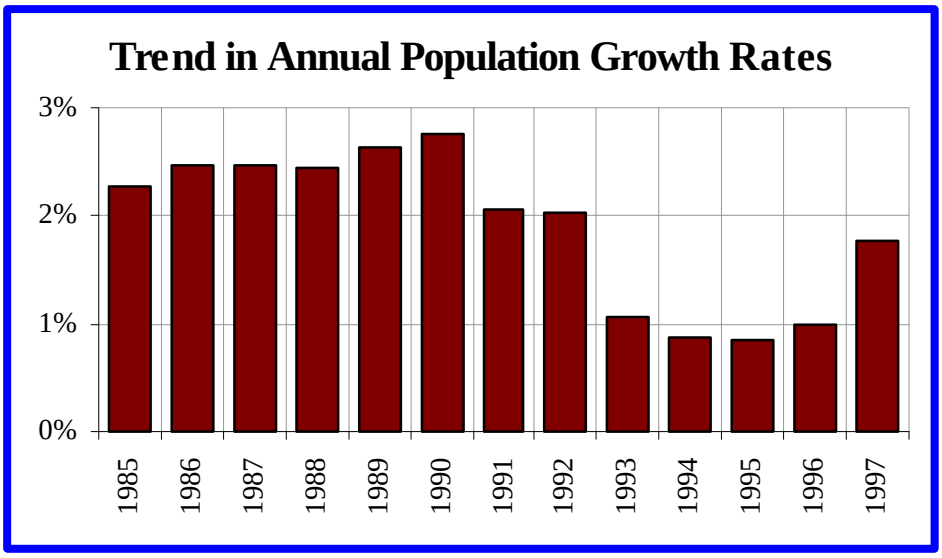
Population Growth

Domestic net migration had been a drag on growth.

Population growth drives and supports economic growth by creating new markets for goods and services as well as expanding the available labor supply. Economic growth is also an engine for population growth as increased job opportunities draw new residents. The relationship between population growth and economic prosperity has been a major factor in California's history, such as during the boom periods of the early 1970s and later 1980s when the state consistently recorded the fastest population growth among states.

In the early 1990s, however, the economic slowdown caused a dramatic drop in the pace of California's population growth. While average annual

population growth was 2.3 percent during the 1980s, growth so far during the 1990s has averaged only about 1.3 percent annually. The slowdown is due to declines in both of the two components of population change – natural increase and net migration.



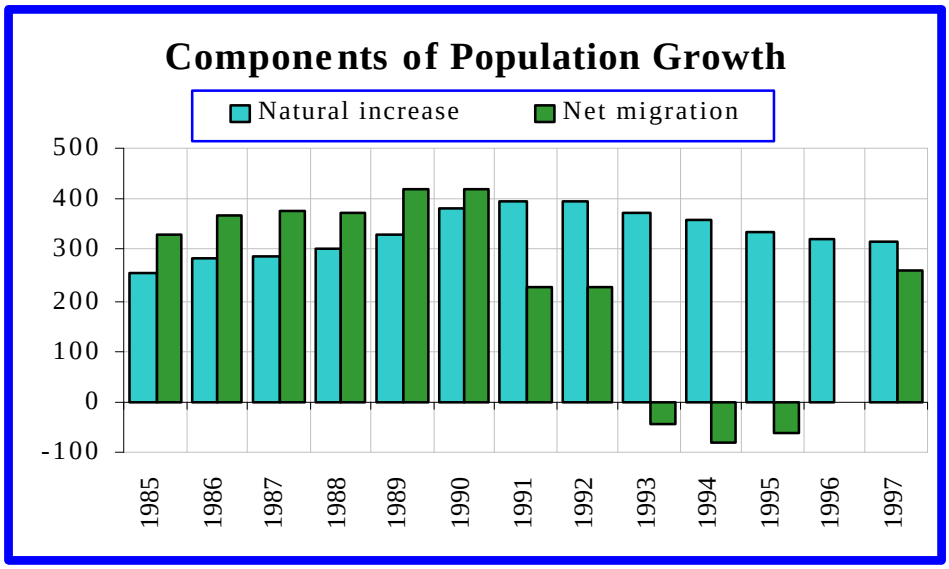
International immigration has remained steady at around 200,000 persons per year.

Natural increase is the difference between the births and deaths of California residents. The number of persons added as a result of natural increase has fallen since 1990 as a result of a drop in the number of births, which in turn was due to falling fertility rates and a changing age structure. As a large number of women associated with the baby boom cohort moved out of primary childbearing years, a smaller cohort followed. Birth rates have also declined among younger age groups.

Net migration is the number of persons entering the state less the number leaving. Migration is a combination of domestic migration, (migration between California and other states) and international migration (migration between California and other countries). Migration has contributed more to California population growth since 1970 than has natural increase, but it is also the more volatile component of population change. Migration also has the more direct and immediate effect on California labor markets because the majority of migrants tend to be young adult members of the labor force. From a peak of 421,000 persons in 1990,

net migration dropped by almost one half to 224,000 in 1991. For three years, beginning in 1993, declining net migration was actually a drag on California population growth. The drag was entirely due to a dramatic reversal in the pattern of domestic migration. According to unofficial California Department of Finance estimates, from July 1989 to July 1990 domestic net migration to California was at a 25 year high, with almost 200,000 people added to the state's population due to domestic migration. Just four years later, between July 1993 and July 1994, the state lost a record 257,000 people through net domestic outmigration. International immigration (both legal and illegal), on the other hand, remained steady at around 200,000 persons per year.

State demographers estimated total net migration contributed 258,000 persons to California's population growth in the year ending June 1997.



As the state's economy has improved, net migration has risen and California is again a net importer of population from other states. State demographers estimated total net migration contributed 258,000 persons to California's population growth in the year ending June 1997, with domestic migration contributing 21,000 of the total.

Prospects

California's rate of population growth will stabilize.

Population growth in the coming years is expected to average about 1.8 percent per year, higher than during the recession but still lower than the state's long-term average rate of 2.0 percent. California's population is expected to increase from 32.9 million in 1997 to 36.4 million in 2003. Births are expected to increase, though not to the high level experienced in 1990, as fertility rates stabilize then rise slightly, and as a larger cohort of women moves into the prime childbearing ages of 15 to 24 years. Net migration through the year 2003 will rebound from the historically low level of the mid-1990s, to average more than 250,000 persons per year.

California's population is expected to increase from 32.9 million in 1997 to 36.4 million in 2003.

The more stable growth outlook, nevertheless, holds substantial change for the composition of the California population. The most dramatic changes expected are:

- The state's population will age. The median age will rise from 31 to 33 years.
- There will be no ethnic majority in just two years. The white proportion of the state's population will drop from 52 percent in 1997 to 48 percent in 2003.
- Hispanics will account for over one-half of all growth between 1997 and 2003. Their share of the state's population will rise from 29 percent to 32 percent.
- The labor market will enjoy the benefits of a more mature workforce and an additional labor supply owing to the high participation rates of Hispanics.

Welfare Reform

Caseloads have fallen dramatically.

Effective January 1, 1998, California adopted welfare reform by replacing the previous program, Aid to Families with Dependent Children (AFDC), with the California Work Opportunity and Responsibility to Kids (CalWORKs). The purpose of reform was to transition welfare from an "entitlement" program having few limits to one explicitly intended as temporary support in times of crisis. The primary features of CalWORKs are time-limited aid and work requirements for able-bodied adults.

Welfare reform has the potential to add approximately 348,000 persons to the labor force.

Welfare caseloads have already fallen as a result of the improving economy. Caseloads reached a peak near 925,000 in 1994-95, had declined 20 percent by 1997-98, and are projected to decline another 10 percent in the current fiscal year. Analysts attribute about two-thirds of the decline to demographic trends and the state's economic expansion. At least part of the remaining decline has been attributed to an "announcement effect" of welfare reform.

Prospects

The ease of meeting reform goals will depend on the economy.

Since welfare reform is intended to affect the labor force behavior of a large number of Californians, the progress of its implementation and its ultimate success in moving recipients off public assistance has the potential to influence future labor market trends. By the same token, the success of welfare reform will depend on the economic environment in which it is carried out.

As a result of declining caseloads, there will be a declining number of adult recipients pushed into the labor pool. As of September 1998, there were 153,000 adults receiving welfare under the unemployed component (usually single parents) and 390,000 adults receiving welfare under the family-group component (usually members of two-parent families). All of

the adults in single-parent families and at least one adult in the two-parent families must meet the work requirement.[5] Although the work requirement can be satisfied in limited circumstances by activities such as community service and education, most recipients must find unsubsidized employment. Therefore welfare reform has the potential to add approximately 348,000[6] persons to the labor force as counties implement the work requirement in the coming months. Among these adult recipients, those that have joined welfare roles since CalWORKS took effect will face the work requirement by July 1999, while others will be subject to the requirement by January 2000.

Over half of all the jobs generated by the 50 fastest growing occupations require less than one month of on-the-job training.

The ability of welfare agencies to enforce the aid time-limit and work requirement will depend on 1) there being enough job opportunities in occupations that match the experience and skill level of welfare recipients, and 2) the job readiness of the welfare population. The following will bear on the issue:

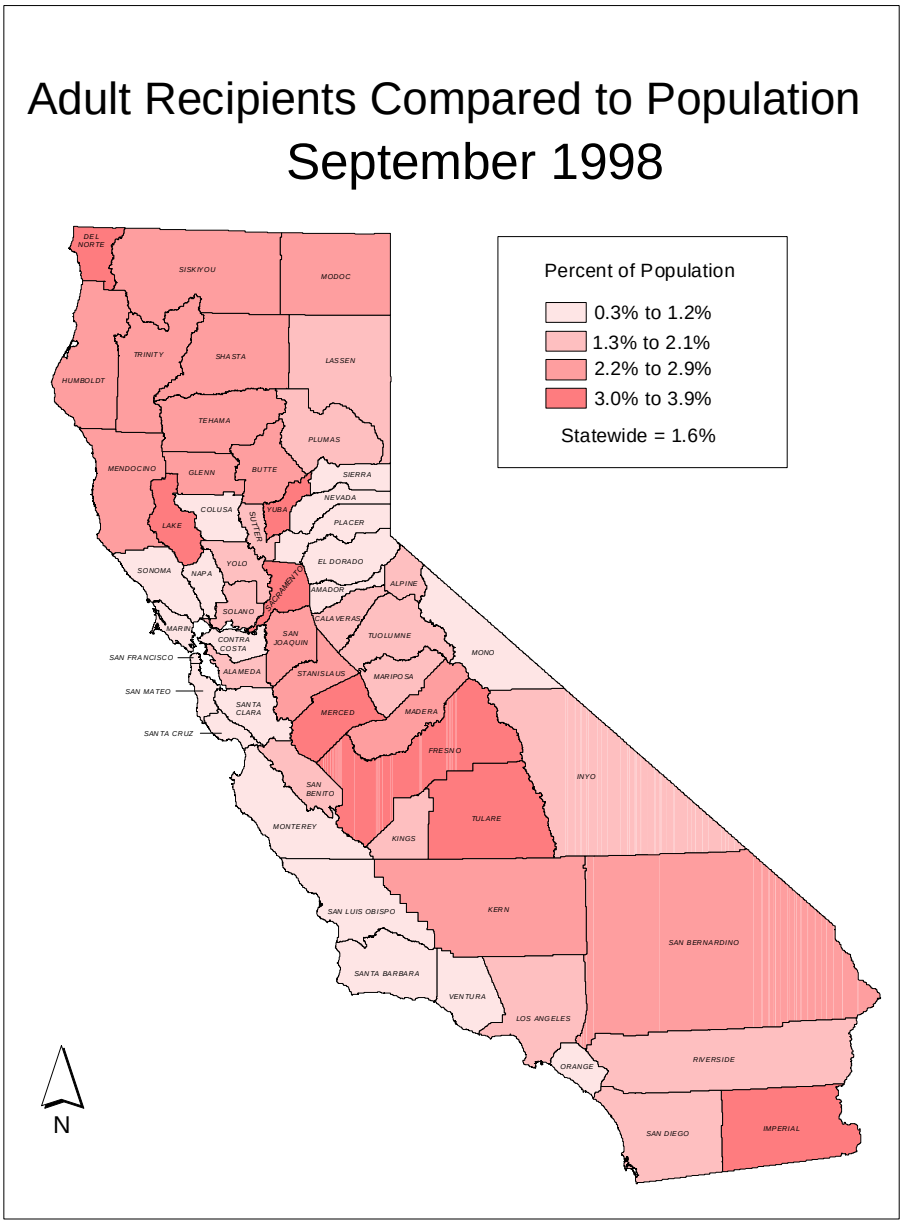
- Under fairly sanguine economic conditions and over the long run, we estimate that California employers create approximately 310,000 new jobs annually as the result of economic growth. There are a like number of job openings available annually from "separations" – when workers leave the labor force due to retirement or changing occupations. In an economic downturn, many fewer job opportunities are available.

- Many of the approximately 600,000 job opportunities annually are in occupations with relatively low skill requirements. Over half of all the jobs generated by the 50 fastest growing occupations require less than

[5] California Department of Social Services state that 20 to 25 percent of the state's welfare recipients work.

[6] This number is derived by adding the number of adults in the unemployment components (153,000) and one half the number of adults in family group component (195,000). It is not possible to calculate the exact number of welfare recipients who will be new job seekers because it is not known how many welfare recipients are on and off aid because of finding or losing work and because some recipients already work.

one month of on-the-job training, and 75 percent require less than a bachelor's degree.



Recipients are concentrated along the northern portion of the state as well as the Central Valley.

- Welfare recipients will have to compete for these jobs with other members of the labor force. Competitors will include those currently unemployed, employed individuals who want to change jobs or take on

second jobs, and other new labor force entrants, such as high school drop-outs and recent graduates.

- Recipients may have to work multiple jobs to meet the minimum weekly hours needed to meet the work requirement. Economy-wide, 20 percent of employed Californians work fewer than 35 hours per week and those with little education are more likely to work part-time jobs.

- Welfare reform is neither likely to have a discernable effect on aggregate, statewide labor market statistics nor influence California's broader economic trends. On the other hand, the effect may be quite significant in some localized labor markets. The relative size of the welfare population varies widely among areas. Areas with a high proportion of welfare recipients are not necessarily the areas where job opportunities will be most plentiful.

"We can't sustain this prosperity without a more educated work force with better skill sets."

Gray Davis

The decline in welfare caseloads enable welfare agencies to concentrate services and resources on adult recipients who need the most help to become job ready. The consensus outlook assumes there will be no major economic disruption as welfare reform is implemented and these individuals gradually face the loss of aid. Militating against a negative effect is the overall size and strength of the state's economy. The soonest that any welfare recipient would exceed the CalWORKs aid limit is 18 months from the effective date of the program. That would be late in 1999 at the earliest, a time in which California is still expected to have a minimum job growth of 2 to 2.5 percent per year.

Labor Supply Problems

Shortages of skilled workers have constrained growth in high technology.

The economy is booming and jobs are plentiful. But increasingly, employers in the fastest growing industries are finding qualified applicants hard to find. Worker shortages have been reported in high technology manufacturing and service businesses, construction, and agriculture. Continued shortages have the potential to constrain employment growth in these industries. This section discusses the occurrence and outlook for worker shortages.

In 1997, there were a total of 1.1 million California jobs in high technology industries in aerospace manufacturing, electronics manufacturing, and high technology services, representing 8.7 percent of total nonfarm employment. Employment in high technology industries expanded by 5.8 percent in 1997, substantially more than job growth economy-wide, which was 3.3 percent. Growth in computer programming and related services was particularly robust, at 14.5 percent.

In 1996 alone, annual wages per employee rose 7.2 percent in computer programming and related services.

Using the results of our statewide survey of occupations and wages across all industries, we estimate there are approximately 255,000 workers in information technology occupations statewide, with 166,000 specifically in high technology industries.

As would be expected in an industry experiencing labor shortages, wages in computer programming and related services have grown very rapidly in recent years. In 1996 alone, annual wages per employee rose 7.2 percent in computer programming and related services, while wages in all other employment rose 3.4 percent.

Despite rapidly rising wages, two-thirds of the respondents to recent EDD surveys of firms who employ information technology workers indicated it was moderately to very difficult to find computer programmers,

systems analysts, computer engineers, and/or software engineers.[7] In a recent survey by the National Association of Manufacturers[8], 88 percent of U.S. companies say they have a hard time finding qualified workers. Fully 60 percent reject at least one-half of all applicants as unqualified, and one-third say even employees with the basics, such as adequate reading and writing skills, are hard to find.

Prospects

Additional visas will increase high technology's access to foreign workers.

The demand for information technology professionals in the U.S. will grow by 95,000 per year through the year 2005.

The labor market for information technology professionals is clearly tightening and is expected to tighten further. Competitive conditions are pushing up wages rapidly, leading to greater recruiting and placement costs. The vast economic opportunities are stimulating information technology employees to start "spin-off" businesses, further increasing the demand for highly skilled labor. While higher education systems are trying to respond, there is substantial lag time between demand and a new supply of labor.

The Bureau of Labor Statistics estimates that the demand for information technology professionals in the U.S. will grow by 95,000 per year through the year 2005. This may have significant impact for the leading sectors of economic growth in the country which has an estimated 190,000 information technology jobs unfilled today and a projected one million jobs being created over the next eight years.[9]

A shortage of workers with technical skills has forced the Silicon Valley companies to recruit employees from overseas. Nationally, with thousands of high technology jobs unfilled, Congress has raised the number of H-1B visas authorized from 65,000 to 115,000 per year for 1999 and 2000.[10] The

[7] California Cooperative Occupational Information System (CCOIS) surveys, 1994-1996 Surveys of 654 firms employing nearly 15,000 information technology workers.
[8] CNBC & Wall Street Journal. Business, November 15, 1998
[9] California Manufacturer, "Eye on Washington," December 1998
[10] Wall Street Journal, September 24, 1998. "Congress Strikes Compromise To Let In More Skilled Workers"

additional workers will provide companies with the ability to fill jobs in California that might be lost to out of state companies.

… but won't affect shortages in skilled construction trades

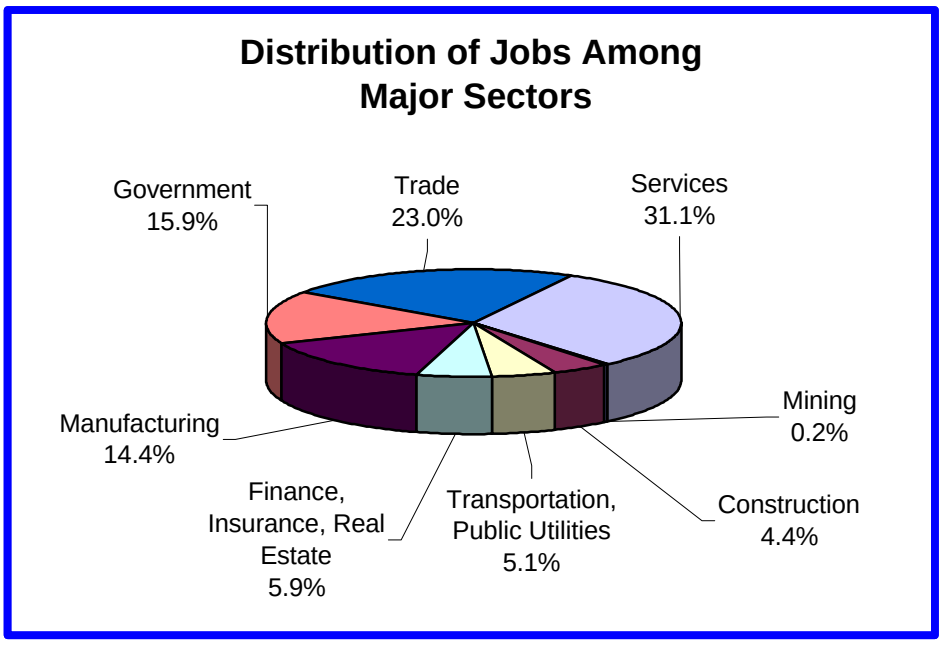
Access to foreign workers skilled in information technology occupations will help California's high technology industry, but H-1B visas will not provide a remedy for the shortages being reported in construction. Construction should continue to be one of the state's fastest growing industries with building permits approaching all time highs. However, many construction firms are experiencing shortages in the skilled trades. Wages have risen considerably in the industry from the lows recorded during the 1990-93 recession, but a limited availability of workers in the skilled trades continues to threaten timely completion of major construction projects.

Construction should continue to be one of the state's fastest growing industries.

INDUSTRY EMPLOYMENT

California's economy is based on a broad spectrum of industries.[11] Resource industries that provide raw materials include mining, forestry, and agriculture. Manufacturing industries produce everything from aircraft and electronics to apparel. California's world-renowned tourism destinations, movie production, and software programming are the backbone of a thriving services sector. The roles of manufacturing and resource industries are becoming a smaller part of the economy, while the importance of industries providing services to consumers or to other businesses is increasing. For example, California in 1998 has more jobs in business services (1.1 million) than in electronics and aerospace combined, and more jobs in retail trade (2.3 million) than in the entire manufacturing sector (2 million).

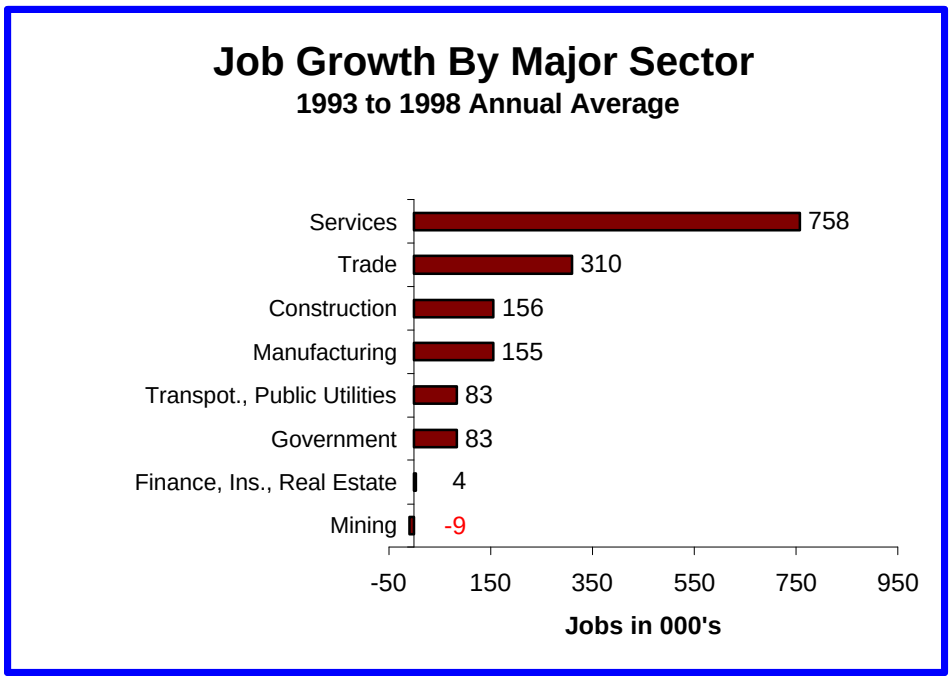
California now has more jobs in business services than in electronics and aerospace combined.



In total, California has added 1.5 million nonfarm jobs over the last five years, with service-producing industries providing most of the job gains. Service-producing sectors, led by services and trade, have created 1.1

[11] Industry definitions are contained in Appendix B.

million jobs over the last five years. In comparison, payroll employment in the goods-producing industries rose 301,000 jobs over the five-year period. This section provides a brief summary of employment trends in each of the major industry sectors, in order of their contribution to the total nonfarm job growth over the past five years.



Services payroll employment accounts for 4.2 million jobs, or 32 percent of the total nonfarm jobs in California.

Services

Business services is the "Godzilla" of industries, very large and high tech.

Services payroll employment accounts for 4.2 million jobs, or 32 percent of the total nonfarm jobs in California. From 1993 through 1998, employment increased 22 percent, or 757,500 jobs. Over the year, 1997 to 1998, there was a gain of 194,300 jobs, or 4.8 percent, outpacing the national average of 3.7 percent job growth.

Business services is the largest and fastest growing industry subdivision within the services sector. Business services accounted for almost half of the overall services growth in 1998, gaining 91,900 jobs, or 8.8 percent, almost 2 percent above the previous year's 7.0 percent gain. Museums and

botanical and zoological gardens posted the highest percentage gain of 9.5 percent, followed by social services at 5.8 percent.

There were seven other industries that posted employment gains of over 5,000 jobs in 1998, led by engineering and management, which added 23,200 jobs, 9,800 more jobs than the previous year's gain. Health services added 18,900 jobs and social services added 14,200 jobs. Strong employment growth was posted in in-patient nursing and health related personal care, home health care services, and business and management consulting services for the second straight year.

The motion picture industry added 2,600 jobs, or 1.4 percent, in 1998. This reflects a 2,100 increase in jobs for movie production and a small gain in other motion pictures related employment. Amusement and recreation services employment payrolls grew 8,000 jobs, or 4.2 percent, in 1998. Planned expansions at many facilities in the state continue to spur job growth in this sector.

Wholesale trade employment increased more than 2.2 percent for the fifth consecutive year.

Trade

California's second largest industry is growing.

Trade payroll employment accounts for 3.1 million jobs, or 23 percent of the total nonfarm jobs in California. From 1993 through 1998, employment increased 310,200 jobs, or 11 percent. Employment in this sector increased 73,200 jobs from 1997 to 1998, or 2.4 percent, slightly higher than the national increase of 2.3 percent.

Wholesale trade employment increased 26,500 jobs, or 3.4 percent, for the same period, considerably above the national average of 2.5 percent. Employment in this industry increased more than 2.2 percent in each of the past five years and is above the pre-recession peak of 1990.

Retail trade employment rose 46,700 jobs, or 2.1 percent, slightly lower than the national average of 2.2 percent. General merchandise stores and apparel and accessory stores continued to rebound from the losses experienced in 1996. Consumer confidence in a strong economy, increased

consumer spending, and low inflation levels combined with the lowest interest rate in years contributed to strong retail sales and higher trade employment figures for the first 10 months of 1998.

Other areas with job gains in retail trade were eating and drinking establishments, followed by building general merchandise and furniture and home furnishing and equipment. For the second consecutive year, the greatest percentage growth, 5.7 percent, was in furniture and home furnishing and equipment.

Construction

The fastest growing sector over the past two years.

Construction increased 155,800 jobs or 35 percent over the last five-years.

Construction payroll employment was 601,500 jobs in 1998, or 4 percent of the nonfarm jobs in California. For the fifth consecutive year construction employment has grown, increasing 51,500 jobs, or 9.4 percent, from 1997 through 1998. Growth in California's construction sector more than doubled the national growth of 4.6 percent. From 1993 through 1998, construction increased 155,800 jobs, or 35 percent.

Special trades had the most vigorous growth, rising 36,800 jobs from 1997 to 1998, or 10.3 percent. General building contractors increased 11,300 jobs, or 8.5 percent, and heavy construction jobs increased 3,400 jobs, or 5.6 percent.

Manufacturing

Payrolls are large, but generally not growing.

Manufacturing payroll employment was 2 million jobs in 1998, or 14 percent of the nonfarm jobs in California. This sector increased 46,000 jobs, or 2.4 percent from 1997 through 1998. This employment growth was opposite the nationwide trend, which was an overall loss of 0.5 percent. Most of the California manufacturing increase was in durable goods for this period. From 1993 through 1998, manufacturing increased 155,000 jobs,

primarily in durable goods. The largest manufacturing industries are those specializing in high technology. Industries making computers, electronic components, communications equipment, and high technology instruments accounted for 25 percent of the California's manufacturing jobs in 1998.

Government

Gains are due to education.

Government payroll employment accounts for 2.2 million jobs, or 16 percent of the total nonfarm jobs in California. From 1993 through 1998, employment has increased 83,100 jobs, or 4 percent.

Government payroll employment accounts for 16 percent of the total nonfarm jobs in California.

Government gained 22,800 jobs, or 1.1 percent, from 1997 to 1998, as gains in state and local government jobs more than offset the losses in the federal sector. Nationwide, California was slightly behind the national average of 1.6 percent job growth.

The job gains in state and local government were in education, which accounted for 30,200 jobs, or 79 percent of the 38,100 jobs gained. Local government employment was up 33,200 jobs, or 2.3 percent, with local education accounting for 25,200 jobs, or 76 percent of the job growth. Job growth in education reflects the state mandate for smaller class size and the hiring of new teachers. County and city governments added jobs, while Indian tribal governments rebounded with an increase of 1,100 jobs.

Federal government employment declined by 15,300 jobs, with the Department of Defense losing 7,000 jobs, and other federal government losing 8,300 jobs. From 1993 through 1998, Federal government employment decreased 66,900 jobs, or 20 percent.

Transportation and Public Utilities

Transportation and public utilities payroll employment was 694,100 jobs in 1998, or 5 percent of the total nonfarm jobs in California. This sector posted a gain of 30,300 jobs, or 4.6 percent, from 1997 through 1998. This

increase was double the nationwide employment growth, which was 2.1 percent. Transportation gained 15,300 jobs, or 3.6 percent, while communications and public utilities gained 15,000 jobs, or 6.3 percent, over the same period.

Finance, Insurance and Real Estate

Finance, insurance and real estate payroll employment accounts for 798,000 jobs in California.

Finance, insurance and real estate payroll employment accounts for 798,000 jobs, or 6 percent of the total nonfarm jobs in California. From 1993 through 1998, employment increased 3,700 jobs, offsetting the losses through mergers and downsizing of 1994 and 1995, where employment was at a five-year low of 732,000 jobs. Gains in employment in 1998 continue a three-year steady increase in employment, surpassing the five-year high of 798,000 jobs in 1993.

California gained 39,700 jobs, or 5.2 percent, in the finance, insurance and real estate sector between 1997 and 1998, much higher than the national average of 3.6 percent. The finance industry led the employment increase by adding over half of the new jobs (21,900 jobs, or 6 percent). Employment in the insurance industry increased 12,000 jobs, or 5.8 percent, from 1997 to 1998. Real estate employment increased 5,800 jobs, or 3.1 percent, for the same period, reflecting a continuing rebound of the real estate market in California.

Mining

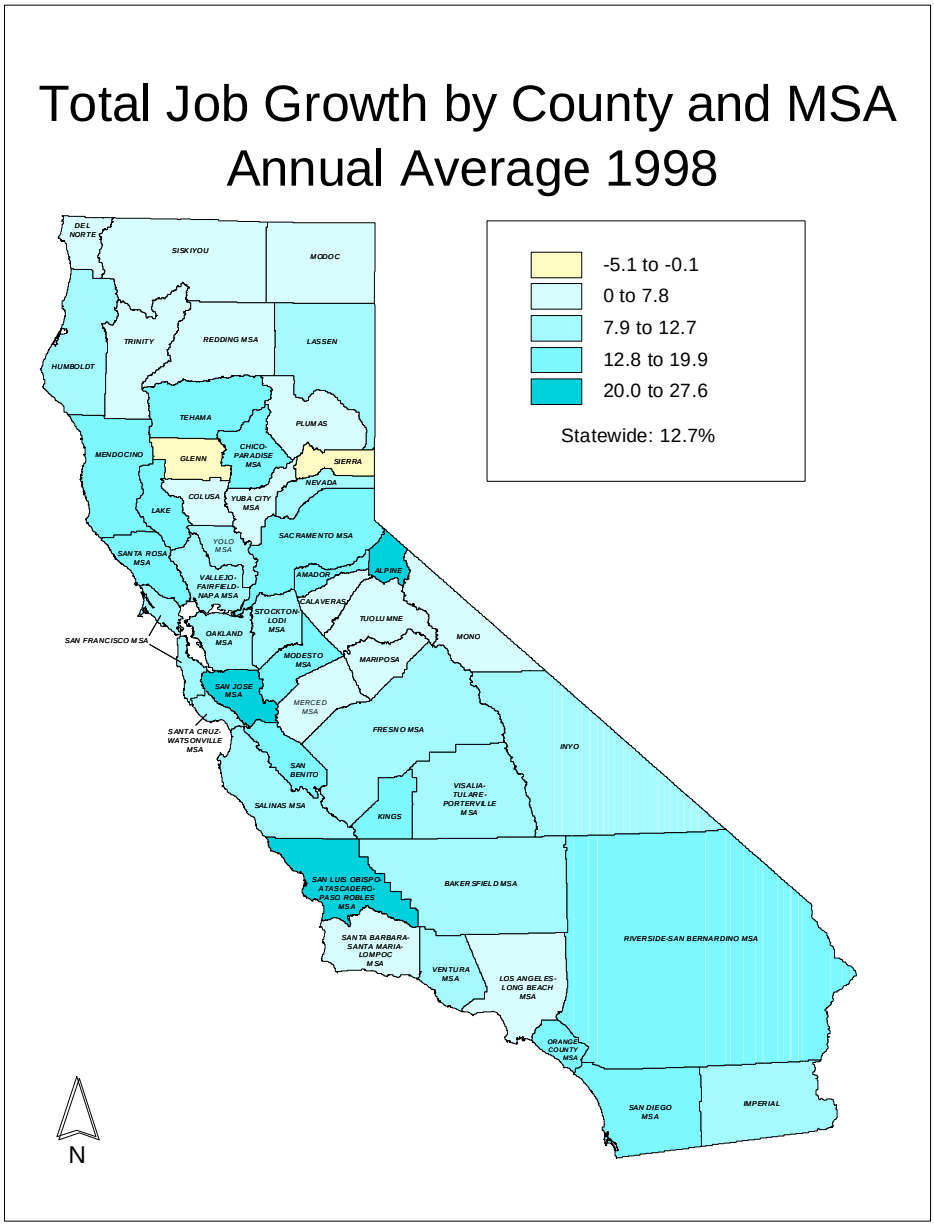
Mining payroll employment was 25,500 in 1998, or less than 0.5 percent of California's nonfarm jobs, the sector with the smallest employment in California. Mining employment was down 3,500 jobs, or 12 percent, from 1997 to 1998. Mining has steadily lost jobs over the past five years, losing 9,400 jobs since 1993.

REGIONAL CONDITIONS

As a large and diverse state with 58 counties and 25 Metropolitan Statistical Areas (MSA's), California encompasses a number of distinct regional economies and localized labor markets which often do not conform to either county or MSA boundaries. While most areas have recorded job gains and lower unemployment over the past five years, the pace of expansion varies. Refer to the following page for a detailed map of total job growth by county and MSA.

California encompasses a number of distinct regional economies and localized labor markets.

This section discusses local labor market conditions, the regional character of the state's economy and the regional pattern of recent and projected growth.



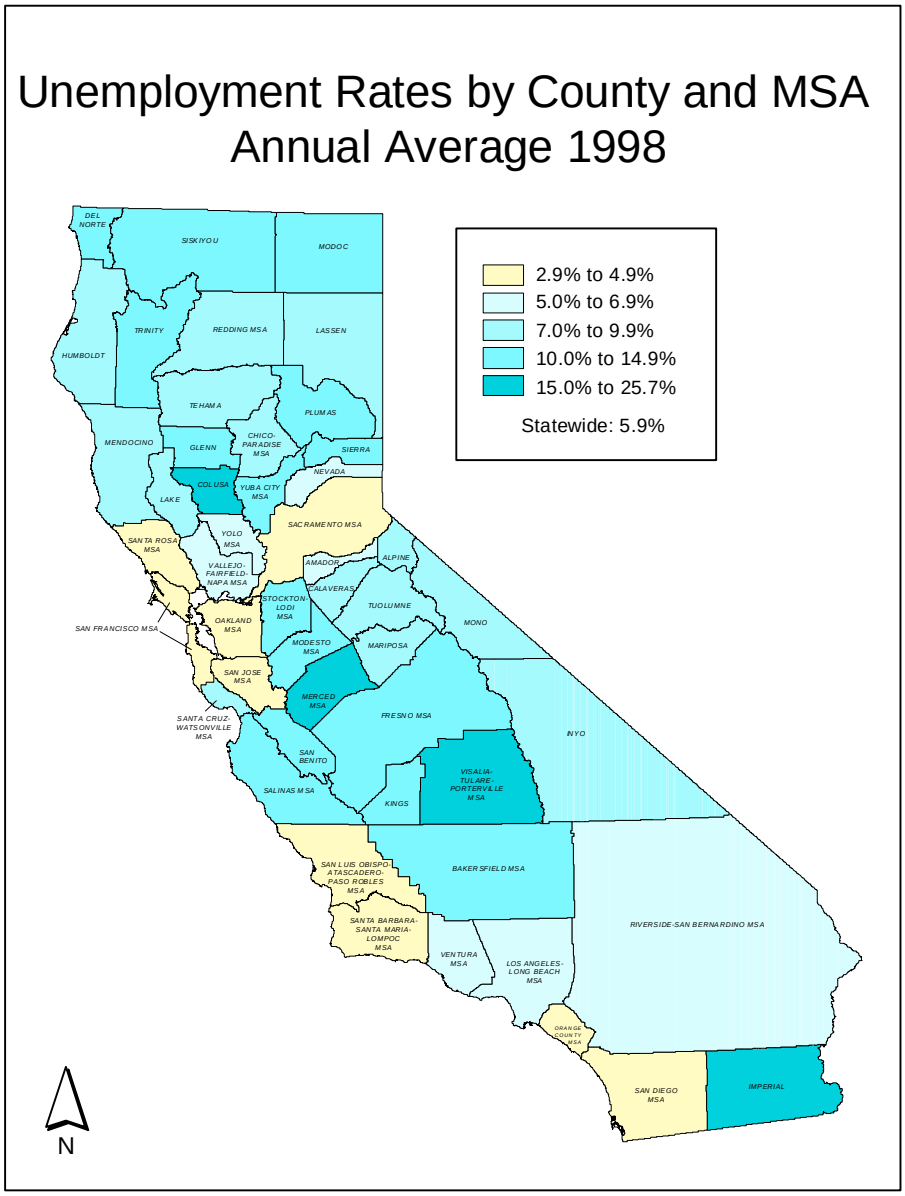
Local Labor Market Conditions

The primary geographic units for which substate employment statistics are estimated are counties and Metropolitan Statistical Areas (MSAs). MSAs are composed of one or more urbanized counties. California has 25 MSA's ranging from Yuba City MSA at 60,300 to Los Angeles-Long Beach MSA with 9,649,800 inhabitants.

All but two California non-MSA counties have seen an increase in total payroll jobs over the five years from 1993 to 1998. The two areas where job losses have been recorded over this period are Glenn and Sierra Counties, which are very lightly populated. The total five-year loss is 20 and 50 jobs respectively. The fastest rates of growth over the past five years were recorded by San Luis Obispo-Atascadero-Paso Robles MSA, San Jose MSA, Santa Rosa MSA, Riverside-San Bernardino MSA, and three small counties.

Unemployment rates by MSA and county in 1998 ranged from a low of 2.9 percent in Orange County MSA to 25.7 percent in Imperial County. Unemployment rates fell over the past five years in all areas but Sierra County. In most areas, the improvement in the unemployment rate has been quite dramatic. The rate fell by three percentage points or more in 30 of the 49 areas. The rise in unemployment in tiny Sierra County was from 11.1 percent in 1993 to 11.9 percent in 1998. Refer to the following page for a detailed map of unemployment rates by county and MSA.

Unemployment rates fell over the past five years in all but Sierra County.



Regional Economies

Labor markets and economic linkages often extend beyond the boundaries of individual MSA's and counties, so these areas are often grouped into economic regions. These regions are broadly characterized by a homogeneous and/or interdependent industry structure, a centralized core

business area, such as a major city, and extend to surrounding areas to encompass worker commute patterns.

There is no universally agreed-to definition of California's economic regions, but most studies and policy analysis suggest between five to twelve economic regions. The composition of the regions devised by the California Economic Strategy Panel, for example, is shown in the accompanying map. This regional scheme respects the way counties are grouped for data collection conventions (i.e., MSA and consolidated MSA), physical geographic barriers (such as the Sierra Nevada Mountains), and commute patterns which weighs heavily in the classification. This is the regional scheme used in the remainder of this section.

California regional economies differ with regard to industrial structure and density of economic activity

California regional economies differ with regard to industrial structure and density of economic activity. For example, Northern California is sparsely populated, with only one city, Eureka, having a population over 20,000 in 1998. Most of the land area is forested, and the regional economy is based primarily on tourism and forestry. In the San Joaquin Valley, most of the land is in farming, with cities dotted all along the transportation corridor running the length of the valley. There are 22 cities in the region having a population over 20,000 and four cities with a population of 100,000 or more. The regional economy is based on food processing, warehousing and distribution.

Not surprisingly, the state's large, urban regional economies are highly integrated and have a diverse industrial structure. Nevertheless, there are important differences. For example, aerospace and defense spending in the Bay Area is concentrated in systems and electronic components. In the Southern California area, the concentration is aircraft; and in the Southern Border area, in missiles and space systems. As a result of these differences, the Bay Area and Southern Border weathered cuts in defense spending better than did Southern California. A detailed map of the regions used by the Economic Strategy Panel is on the following page.

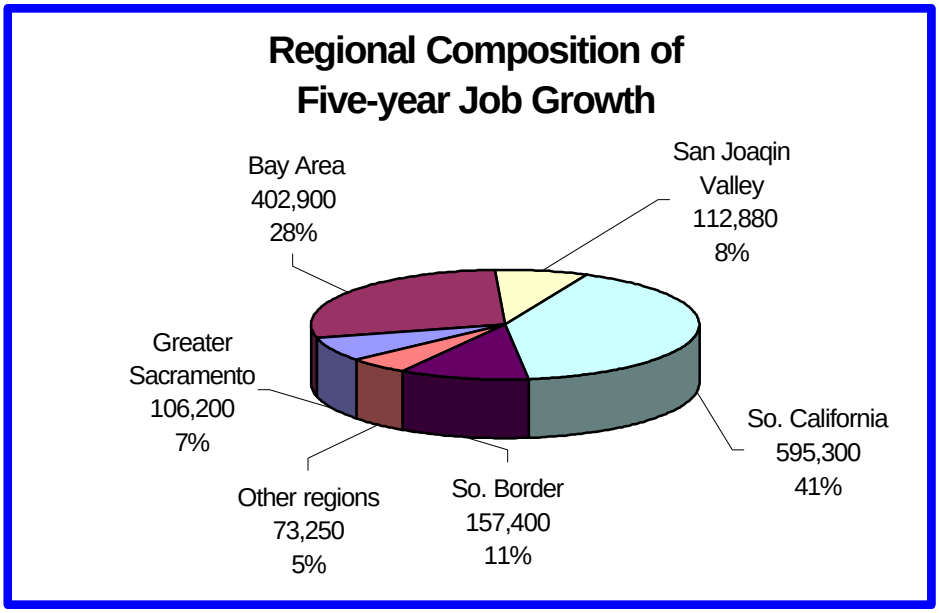
Five regions accounted for 95 percent of the additional jobs created in California between 1993 and 1998.

Regional Trends and Outlook

The following are the most salient general conclusions that can be made regarding the regional pattern of labor market conditions:

- Five regions accounted for 95 percent of all jobs in 1998 and of the additional jobs created in California areas between 1993 and 1998.

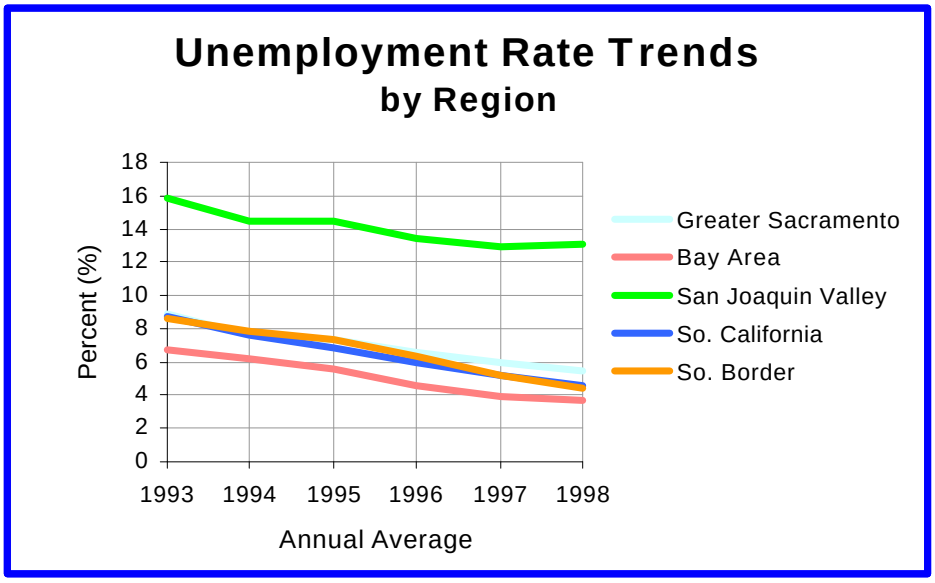
They are Southern California, Bay Area, Southern Border, San Joaquin Valley, and Greater Sacramento. Growth in the Bay Area, Greater Sacramento, and Southern Border regions was disproportionately greater than their share of jobs; growth in the Southern California region was disproportionately less.



Greater Sacramento, Central Sierra, and Southern California saw job growth accelerate.

- The pace of job growth in 1998 was slower than in 1997 across many regions. Only Greater Sacramento, Central Sierra, and Southern California saw job growth accelerate.

- Employment statistics about job growth statewide exceed the sum of employment statistics job growth across regions. This is partly the result of independent estimates for California and its component areas. The more important reason for this difference is that some large employers do not report the physical location of their California employment. As a consequence, job growth among these large employers is included in statewide employment estimates, but not in the specific regions where the new jobs were actually located.



Unemployment rates have fallen continuously year to year since 1993 in all regions except the San Joaquin Valley.

- Unemployment rates have fallen continuously year to year since 1993 in all regions, except the San Joaquin Valley, and the pattern of relative unemployment rates has changed little. The San Joaquin Valley records the highest unemployment rate, the Bay Area records the lowest rate, and the rates among other regions vary within a relatively narrow band (less than 2.0 percentage points).

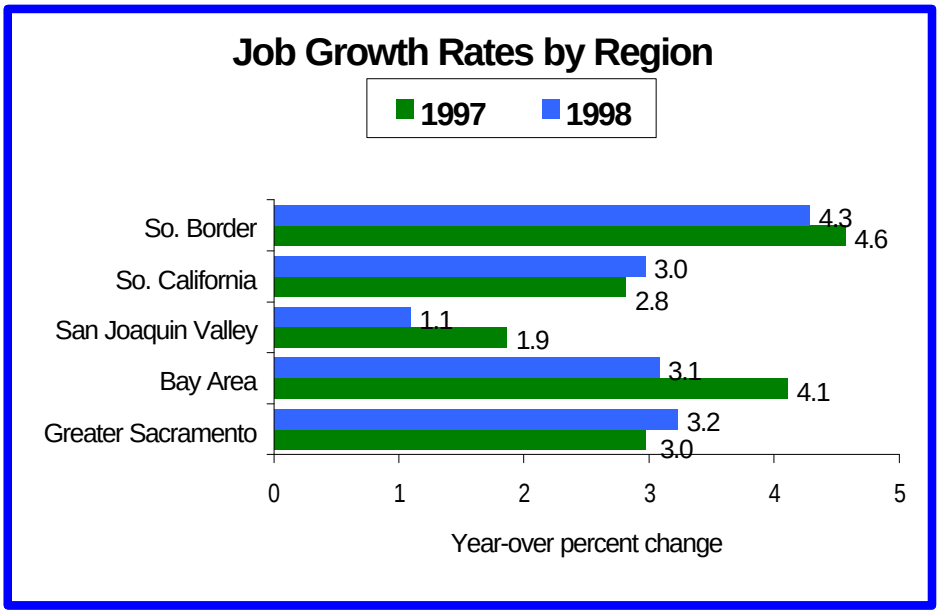
Disparities in regional economic growth are primarily related to the varying fortunes of the industries on which the local economy is based and on the differing rates of population growth. Additional factors include the relative cost of living and doing business that often drive the location decisions of industry and people, environmental regulations, and land availability. The following paragraphs discuss labor market trends for the five largest California regional economies.

Southern California

Los Angeles, Orange, Riverside, San Bernardino, and Ventura Counties

The single industry creating the most jobs in the region is business services. However the fastest growing industry is construction. This is true of the region and the state as a whole. With significant home building and non-residential construction, principally in Riverside, San Bernardino, and Orange counties, construction employment has risen at double-digit rates. Orange leads all counties in durable manufacturing job creation, followed by Los Angeles, Riverside, and San Bernardino counties.

The single industry creating the most jobs in Southern California is business services.



Job growth in the Southern California region has lagged other regions during the early part of the recession. The area suffered particularly from declines in aerospace employment due to cutbacks in federal defense spending and consolidation among aerospace companies. From 1993 to 1998, total job growth in the region was 6.8 percent compared to 8.7 percent across all regions.

However, the region has not been hit as hard as other areas by the decline in Asian exports. As a result, job growth accelerated slightly from 1997 to 1998.

Within the region, the San Bernardino-Riverside MSA has registered the fastest job growth over the five year period, 1993 to 1998, while Orange County MSA registered the fastest job growth in 1998.

Bay Area

Sonoma, Napa, Solano, Marin, Contra Costa, Alameda, Santa Clara, Santa Cruz, San Mateo, and San Francisco Counties

The Bay Area recorded the third fastest annual rate of total job growth among regions over the past five years, 12.4 percent. The effect of industry structure on job growth is clearly demonstrated by recent trends in this region. The Bay Area has been hit harder by the Asian financial crisis than has Southern California because of the significant international trade in electronics and electrical components. As a result, job growth in the region fell from 4.1 percent in 1997 to 3.1 percent in 1998. The slowdown is most pronounced in the San Jose MSA (Santa Clara County), where growth fell from 5.3 to 3.3 percent.

The Bay Area consistently records the lowest unemployment rate among regions.

The Bay Area consistently records the lowest unemployment rate among regions. The average rate for the region was 3.7 percent in 1998. High housing costs have limited labor force growth throughout the San Francisco Area and, consequently, have made hiring of all types of workers difficult.

Greater Sacramento

Sacramento, Yolo, Sutter, Yuba, Placer, Nevada and El Dorado Counties

Jobs in the Greater Sacramento region are widely distributed among industries, with government, high technology and light manufacturing, and tourism services being among the most significant sources of employment. The region benefits from its proximity to the Bay Area region and its location along one of the state's two primary east-west transportation corridors.

The region contributed 7.3 percent of all jobs created in the state over the past five years. Job growth over the past year was 3.2 percent, up from

3.0 percent in 1998. The average unemployment rate in the area in 1998 was 5.5 percent.

San Joaquin Valley

San Joaquin, Stanislaus, Merced, Madera, Fresno, Kings, Tulare, and Kern Counties

As mentioned above, the San Joaquin Valley economy is largely based on agriculture-related industries: farming, processing, packing, and distribution. Other industries that supplement this mainstay include business services, such as processing centers for financial services companies. Because the region offers a ready supply of homes at relatively low prices, many workers whose job is in the Bay Area region live in San Joaquin Valley communities.

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Unemployment rates – which are residency-based labor market statistics are consistently higher in the region than in the adjacent regions because of the significant seasonal nature of the region's employment. The average rate in the region in 1998 was 13.1 percent, down from 15.8 percent in 1993.

Southern Border

San Diego and Imperial Counties

This region is composed of two counties with quite different economies. San Diego is an urban county with a relatively high concentration of jobs in manufacturing, government, and services. Imperial County, on the other hand, is rural and the primary industries are agriculture (crops include cotton, lettuce, and other row crops), retail trade (buoyed by sales to Mexican residents), and *maquiladora* (twin plant) assembly and manufacturing.

The Southern Border region recorded the fastest rate of job growth among major regions, 13.6 percent over the past five years. Growth during 1998 (4.3 percent) was slower than in 1997 (4.6 percent). The region has benefited from increasing trade with Mexico, as well as recent increases in private and public spending on space, satellite, and missile systems. Within

the region, San Diego has registered more rapid job growth than has Imperial County.

Prospects

The latest employment data for California regions show that momentum of the expansion has shifted to Southern California, primarily to the counties surrounding Los Angeles county, which somewhat lags its neighbors in job growth. In the Bay Area, continued strength in most of the region is being offset by sluggish growth in San Jose/Santa Clara County, a victim of weaker Asian export markets, an overheated housing market, and scarcity of office, and industrial space.

The latest employment data for California regions show that momentum of the expansion has shifted to Southern California.

The weakness from declining export sales to Asia is also limiting the expansion in other regions of the state, although trade with Canada, Mexico, and Europe has provided offsets. However, exports to North America and Europe have also slowed, which will likely cut into the job growth. The aerospace industry is suffering some renewed weakness as a result of a slowdown in export orders, most recently from cuts announced by Boeing Corporation, which will have a slight effect on the Southern California aircraft industry.

PROGRAM POLICY AND ECONOMIC TRENDS

This report provides a medium-term view of economic conditions and trends, considering California's experience over the past five years. Economic conditions have improved dramatically over that time. In late 1993, economists remained uncertain whether California had turned the corner from the 1990-1993 recession. Preliminary job data, at that time, did not reflect a rise in employment, and the unemployment rate continued to rise. Generally, there was little agreement among economists regarding the short-run outlook for the California economy. With the upturn in the economy beginning in late 1993, individual forecasters have revised their outlook dramatically as the data increasingly have warranted confidence in an improving outlook.

Currently there is considerable agreement among economists that the economy is likely to improve well into the next decade. This should allow state and other policy makers the opportunity to look beyond program planning and budgeting for the next year, and to consider the long-term effects of economic trends on state policies and programs. We have prepared this report on the current economic conditions and the projected economic outlook from 1999-2003 to assist policymakers in making sound economic-based program decisions. The report also demonstrates the types of information that EDD programs and EDD's Labor Market Information Division have available on a statewide and local area basis.

Program Planning. Trends identified in this report have a significant effect on California programs. Many of these programs also have significant implications for future labor market conditions.

The state of the economy directly affects state programs such as education, health services, social services, aging, correction and prison industry, transportation, and the many resource agencies. In particular, three

programmatic areas can benefit from a broader and long-term perspective on the California economy – education, social services, and corrections.

Education is a high priority in the new California administration. Education programs must respond to changes in population dynamics and the economy. Accelerating population growth in California will increase the number of students of all ages entering the education system. Expected increases in fertility rates will increase the demand for education services in the younger ages. Simultaneously, the education system must address new education needs for adults who face new and/or increased skill requirements in the job market. In this regard, the entire education system – K-12, community colleges, private technical schools, and the university system – will have a role in determining California's future. Changes in social services programs in California are also having an impact on adult education programs. Adult education must meet the needs of current and former welfare recipient adults who have been either out of the labor market for an extended period, or who have never been a part of the labor market. Education planners must have current and trend data available about the supply and demand conditions for specific occupations throughout California in order to train adults for occupations where jobs exist and will expand. Information on emerging industries and occupations and expected trends provide valuable insights in developing curriculum that will meet these education needs.

Social services programs also face a tremendous challenge in implementing welfare reform. Aid time limits and work requirements are a major concern of welfare agencies that need enough job opportunities in occupations that match the experience and skill level of welfare recipients. The CalWORKS program (California Work Opportunity and Responsibility to Kids program established by the Welfare to Work Act of 1997) caseload has been declining steadily beginning in 1996. About two-thirds of the recent decline can be explained by demographic trends and economic expansion. Information that identifies job opportunities and the necessary

job training and education for the welfare population will contribute to the success of these job seekers.

Corrections and prison industry policymakers must take account of economic data as economic conditions in California have an effect on the crime rate. In addition, construction of new prison facilities in California have provided an economic stimuli to the communities in which they are located. With the increase in the incarcerated population, there is a increased demand for appropriate and relevant information about jobs and education and training services for inmates who will be returning to the California job market. This education and training must reflect the demands of growing industries and expanding occupations throughout California in order to release inmates with the appropriate job ready skills.

Quality information for decision making. Several current topics have been addressed in this report, including a discussion of the "New Economy" (see page 6), the Asian Financial Crisis (page 10) and changes in Aerospace and Federal Defense (page 13). Although these economic drivers are important in shaping California's economy and should be considered, at least in the short-term outlook, it is important to make many intermediate and long-term planning decisions based on historical and future trend economic data. EDD/LMID websites are a good source of both immediate and historically economic data for the state and for local areas in the state. Staff in EDD programs and LMID can assist policymakers by providing direction in how to obtain and use the vast resource of available economic data.

APPENDICES

APPENDIX A

Concepts and Definitions

Payroll jobs are the number of workers on payrolls during the pay period including the 12th of the month. Estimates are based on payroll data collected directly from employers in the Current Employment Statistics (CES) Survey or "establishment survey." It does not include the self-employed, unpaid family workers, and private household employees.

Civilian Labor Force includes all non-institutional civilians 16 years of age and older who are working or looking for work: the sum of employed and unemployed.

Civilian Employment includes all individuals 16 years of age and older who are working for a wage or salary, are self-employed, or are working at least 15 unpaid hours in a family business during the week including the 12th of the month. Those who are on vacation, other kinds of leave, or involved in a labor dispute, are also counted as employed. Each employed person is counted only once, even if he or she holds more than one job. Estimates of employment and unemployment are derived from a regression model specified by the U.S. Bureau of Labor Statistics (BLS). One independent variable in the regression model is the level of civilian employment from the Current Population Survey (CPS), a monthly survey of households administered by the Bureau of the Census.

Unemployment Rate is the number of unemployed as a percentage of the labor force.

Seasonally Adjusted. Over the course of a year, the size of the Nation's labor force, the levels of employment and unemployment, and other measures of labor market activity undergo sharp fluctuations due to such seasonal events as changes in

weather, reduced or expanded production, harvests, major holidays, and the opening and closing of schools. Because these seasonal events follow a more or less regular pattern each year, adjusting the statistics from month to month can eliminate their influence on statistical trends. These adjustments make it easier to observe the cyclical and other nonseasonal movements in the series. In evaluating changes in a seasonally adjusted series, it is important to note that seasonal adjustment is merely an approximation based on past experience. Seasonally adjusted estimates have a broader margin of possible error than the original data on which they are based, because they are subject not only to sampling and other errors but are also affected by the uncertainties of the seasonal adjustment process itself.

APPENDIX B
INDUSTRY DEFINITIONS

Mining includes all establishments involved in the extraction of minerals, crude petroleum, and natural gas. It includes quarrying, well operations, milling, and other related activities.

Construction includes establishments engaged in contract construction. This includes new work, additions, alterations, and repairs performed by general and special trade contractors.

Manufacturing includes establishments which are usually described as plants, factories, or mills that are engaged in producing or processing non-durable or durable goods. These characteristically use power-driven machines and material-handling equipment.

Transportation and Public Utilities includes enterprises engaged in passenger and freight transportation by surface, water, and air and warehousing and other transportation services. It also includes the communications complex of telephone, telegraph, radio, and television; and the utilities providing gas, electric, and sanitary services.

Wholesale Trade includes establishments involved in the selling of merchandise to retailers; to industrial, commercial, farm, construction contractors, or professional business users; or to other wholesalers.

Retail Trade includes establishments involved in the selling of merchandise for personal or household consumption and rendering services incidental to the sale of goods.

Finance, Insurance, and Real Estate includes banks, savings and loan institutions, and security and commodity brokerages, insurance agencies and

carriers, real estate sales and management offices, and rental and planning agencies.

Services includes establishments such as hotels, laundries, auto repair shops, theaters, legal services, advertising services, private schools, and hospitals, and nonprofit organizations which are engaged in rendering a variety of services to individuals and businesses.

Government includes the legislative, judicial, administrative, and regulatory activities of federal, state, local, and international governments. It also includes federal, state, and local government hospitals, and education.

APPENDIX C

DATA TABLE

Wage and Salary Employment

(Annual Averages)

	1993	1994	1995	1996	1997	1998	Numerical Change	
							1997 to 1998	1993 to 1998
Total, All Industries	12,407,800	12,539,500	12,796,000	13,151,800	13,543,500	13,983,800	440,300	1,576,000
Total Farm	362,300	379,700	373,500	408,300	413,000	399,000	-14,000	36,700
Farm Production	222,200	224,000	228,400	225,700	231,800	225,100	-6,700	2,900
Farm Services	140,100	155,700	145,100	182,600	181,200	173,900	-7,300	33,800
NONFARM EMPLOYMENT	12,045,500	12,159,800	12,422,500	12,743,500	13,130,500	13,584,800	454,300	1,539,300
MINING	34,900	31,900	30,000	29,200	29,000	25,500	-3,500	-9,400
Metal Mining	2,600	2,500	2,500	2,600	2,200	1,800	-400	-800
Nonmetallic Minerals	5,300	4,900	5,100	5,500	5,500	5,200	-300	-100
Other Mining	27,000	24,500	22,400	21,100	21,300	18,500	-2,800	-8,500
CONSTRUCTION	445,700	464,300	485,400	505,900	550,000	601,500	51,500	155,800
General Building Contractors	110,300	114,500	117,800	122,900	132,200	143,500	11,300	33,200
Heavy Construction	54,900	56,100	60,100	58,600	61,200	64,600	3,400	9,700
Special Trade	280,500	293,700	307,500	324,400	356,600	393,400	36,800	112,900
MANUFACTURING	1,805,300	1,777,500	1,794,200	1,851,900	1,914,300	1,960,300	46,000	155,000
Durable Goods	1,110,000	1,079,000	1,089,700	1,139,300	1,190,400	1,230,900	40,500	120,900
Lumber & Wood Products	47,800	49,700	50,900	53,700	56,500	57,700	1,200	9,900
Furniture & Fixtures	44,500	45,400	47,200	50,500	54,900	58,700	3,800	14,200
Stone, Clay, & Glass	44,500	43,700	44,000	44,500	46,200	48,100	1,900	3,600
Primary Metals	31,900	32,700	33,200	34,200	34,600	35,300	700	3,400
Fabricated Metal Products	111,700	114,600	116,100	119,900	124,400	128,200	3,800	16,500
Industrial Machinery	194,400	188,200	197,200	211,300	226,300	232,900	6,600	38,500
Electronic Equipment	214,000	215,500	228,700	247,800	260,700	268,700	8,000	54,700
Transportation Equipment	201,400	177,900	164,200	161,900	163,100	169,300	6,200	-32,100
Instruments & Related Products	184,400	172,600	166,400	172,200	178,800	184,200	5,400	-200
Miscellaneous Manufacturing	35,400	38,700	41,800	43,300	44,900	47,800	2,900	12,400

Wage and Salary Employment

(Annual Averages)

	1993	1994	1995	1996	1997	1998	Numerical Change	
							1997 to 1998	1993 to 1998
Nondurable Goods	695,300	698,500	704,500	712,600	723,900	729,400	5,500	34,100
Food & Kindred Products	180,400	176,800	174,300	176,900	179,900	182,600	2,700	2,200
Textile Mill Products	16,500	18,400	18,900	20,800	23,500	24,900	1,400	8,400
Apparel & Other Textile Products	135,800	143,300	151,800	156,600	156,100	153,900	-2,200	18,100
Paper & Allied Products	39,300	39,600	39,500	39,900	40,600	40,300	-300	1,000
Printing & Publishing	154,300	151,000	150,300	148,500	149,600	151,600	2,000	-2,700
Chemicals & Allied Products	72,600	70,700	69,100	69,000	71,000	72,300	1,300	-300
Petroleum & Coal Products	22,700	21,600	21,300	20,100	20,500	21,400	900	-1,300
Rubber & Misc. Plastics Products	68,100	70,600	72,600	74,000	75,700	75,600	-100	7,500
Leather & Leather Products	5,600	6,500	6,700	6,800	7,000	6,800	-200	1,200
TRANSPORTATION & PUBLIC UTILITIES	610,700	619,000	630,200	641,900	663,800	694,100	30,300	83,400
Transportation	374,400	385,900	400,200	413,900	426,700	442,000	15,300	67,600
Railroads	16,100	15,500	15,200	14,900	14,100	13,800	-300	-2,300
Local & Interurban Passenger Transportation	34,900	37,200	38,100	40,000	43,400	46,300	2,900	11,400
Trucking & Warehousing	158,400	167,400	175,900	149,300	157,200	162,500	5,300	4,100
Water Transportation	17,800	17,900	18,600	18,800	19,300	20,600	1,300	2,800
Air Transportation	93,400	91,100	93,700	131,400	130,500	134,600	4,100	41,200
Other Transportation	53,800	56,800	58,700	59,500	62,200	64,200	2,000	10,400
Communications & Public Utilities	236,300	233,100	230,000	228,000	237,100	252,100	15,000	15,800
Communications	148,300	148,400	147,000	147,200	156,000	170,100	14,100	21,800
Electric, Gas & Sanitary Services	88,000	84,700	83,000	80,800	81,100	82,000	900	-6,000
TRADE	2,811,800	2,845,000	2,915,100	2,974,000	3,048,800	3,122,000	73,200	310,200
Wholesale Trade	686,700	701,500	724,400	743,900	774,300	800,800	26,500	114,100
Wholesale--Durable	395,100	404,900	422,500	437,600	456,900	476,400	19,500	81,300
Wholesale--Nondurable	291,600	296,600	301,900	306,300	317,400	324,400	7,000	32,800
Retail Trade	2,125,100	2,143,500	2,190,700	2,230,100	2,274,500	2,321,200	46,700	196,100
Building Materials & Garden Supplies	76,400	75,500	75,400	76,700	81,100	85,600	4,500	9,200
General Merchandise	248,500	242,300	244,300	240,700	242,700	250,800	8,100	2,300
Food Stores	301,000	298,900	304,000	310,000	313,200	310,500	-2,700	9,500
Automotive Dealers & Service	202,500	207,000	213,200	220,900	230,000	234,300	4,300	31,800
Apparel & Accessory Stores	133,300	133,500	130,600	127,200	130,900	132,100	1,200	-1,200

Wage and Salary Employment

(Annual Averages)

	1993	1994	1995	1996	1997	1998	Numerical Change	
							1997 to 1998	1993 to 1998
Furniture & Home Furnishings & Equipment	104,600	108,300	115,800	119,300	122,400	129,400	7,000	24,800
Eating & Drinking Places	784,900	794,800	817,500	840,900	853,200	871,800	18,600	86,900
Miscellaneous Retail Trade	273,900	283,200	289,900	294,400	301,000	306,700	5,700	32,800
FINANCE, INSURANCE & REAL ESTATE	794,300	770,600	732,000	736,600	758,300	798,000	39,700	3,700
Finance	385,300	370,400	346,100	352,800	366,100	388,000	21,900	2,700
Depository Institutions	247,400	230,500	217,700	212,800	209,000	206,000	-3,000	-41,400
Nondepository Institutions	67,900	65,300	53,900	60,900	68,500	84,100	15,600	16,200
Security & Commodity Brokers	41,700	46,300	46,900	50,000	57,100	62,700	5,600	21,000
Holding & Investment	28,300	28,300	27,600	29,100	31,500	35,200	3,700	6,900
Insurance	220,300	212,800	202,400	199,900	205,600	217,600	12,000	-2,700
Insurance Carriers	142,000	135,100	124,500	122,400	124,600	132,200	7,600	-9,800
Insurance Agents & Brokers	78,300	77,700	77,900	77,500	81,000	85,400	4,400	7,100
Real Estate	188,700	187,400	183,500	183,900	186,600	192,400	5,800	3,700
SERVICES	3,462,300	3,558,300	3,728,500	3,890,700	4,025,500	4,219,800	194,300	757,500
Hotels & Other Lodging Places	176,900	177,000	178,700	181,900	185,700	188,700	3,000	11,800
Personal Services	116,400	113,500	115,600	117,600	117,000	117,800	800	1,400
Business Services	755,500	804,800	886,200	975,100	1,042,900	1,134,800	91,900	379,300
Auto Repair & Parking	129,700	132,000	139,000	146,300	149,700	153,600	3,900	23,900
Miscellaneous Repair Services	45,800	42,600	44,900	47,600	44,900	45,400	500	-400
Motion Pictures	130,700	142,200	161,300	169,900	183,300	185,900	2,600	55,200
Movie Production	92,400	101,100	118,200	127,400	141,200	143,300	2,100	50,900
Other Motion Pictures	38,300	41,100	43,100	42,500	42,100	42,600	500	4,300
Amusement & Recreation Services	163,400	171,800	180,900	188,200	189,700	197,700	8,000	34,300
Health Services	825,400	832,800	849,200	865,800	882,100	901,000	18,900	75,600
Legal Services	125,900	120,600	118,500	117,100	117,100	118,600	1,500	-7,300
Private Educational Services	166,400	171,800	180,000	188,000	194,700	205,100	10,400	38,700
Social Services	208,800	219,500	232,000	235,600	244,700	258,900	14,200	50,100
Museums, Bot., Zoological Gardens	7,300	7,600	7,900	8,700	9,500	10,400	900	3,100
Membership Organizations	149,100	153,900	153,200	152,700	153,000	160,700	7,700	11,600
Engineering & Management	383,400	389,200	397,900	406,800	416,600	439,800	23,200	56,400
Miscellaneous Services	5,900	5,500	5,600	5,700	5,800	6,200	400	300

Wage and Salary Employment

(Annual Averages)

	1993	1994	1995	1996	1997	1998	Numerical Change	
							1997 to 1998	1993 to 1998
Agricultural Services	71,700	73,500	77,600	83,700	88,800	95,200	6,400	23,500
GOVERNMENT	2,080,500	2,093,200	2,107,100	2,113,300	2,140,800	2,163,600	22,800	83,100
Federal Government	336,200	324,900	311,900	295,800	284,600	269,300	-15,300	-66,900
Department of Defense	114,900	104,100	95,000	86,800	80,100	73,100	-7,000	-41,800
Other Federal Government	221,300	220,800	216,900	209,000	204,500	196,200	-8,300	-25,100
State & Local Government	1,744,300	1,768,300	1,795,200	1,817,500	1,856,200	1,894,300	38,100	150,000
State Government	386,400	395,800	403,500	405,700	408,200	413,100	4,900	26,700
State Education	163,000	165,200	170,100	173,100	177,600	182,600	5,000	19,600
Other State Government	223,400	230,600	233,400	232,600	230,600	230,500	-100	7,100
Local Government	1,357,900	1,372,500	1,391,700	1,411,800	1,448,000	1,481,200	33,200	123,300
Local Education	738,600	750,100	761,600	783,800	819,200	844,400	25,200	105,800
County Government	279,900	283,600	286,300	282,600	283,700	291,900	8,200	12,000
City Government	232,900	233,200	234,800	236,800	239,400	240,900	1,500	8,000
Other Local Government	106,500	105,600	109,000	108,600	105,700	104,000	-1,700	-2,500
Special Districts	106,500	105,600	104,500	103,200	100,200	97,400	-2,800	-9,100
Indian Tribal Government	N/A	N/A	4,500	5,400	5,500	6,600	1,100	N/A